Investors Title Company

INNOVATIVE BY INSTINCT

1999

Annual Report

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Letter to Shareholders

Dear Fellow Shareholders:

The close of 1999 brought the end of a spectacular decade for the real estate and title industries, and a strong, but uneven performance in mortgage lending over the last 12-month period. Investors Title continued to build on the momentum established in the decade and invest in the programs, staff and technology necessary to continue our growth into the next century.

The primary driver of our revenue and income over the last year was the trend in mortgage interest rates. According to data published by the Mortgage Bankers Association of America, the lowest rates of the year were around the 6.75% level in January. At the beginning of July, the rate had increased to 7.55%, and by year-end was 7.91%.

The brunt of this increase in interest rates was felt on the refinance side of the mortgage origination market. In 1998, refinance volume totaled 50% of the total mortgage market. For all of 1999, refinances totaled about 36% of total mortgage originations but by the fourth quarter that percent had dropped to around 22%. In terms of a prior year comparison, the fourth quarter 1999 volume of refinance originations had declined approximately 61%.

On the other hand, home sales and commercial lending seemed impervious to higher interest rates. Sales of new homes increased 2.5% and sales of existing homes increased 4.5%, setting new annual records according to the National Association of Realtors.

Activity remained vibrant in the commercial real estate market as well. We have continued to build our expertise and capacity for supporting commercial accounts. By paying attention to detail and providing a high level of support to customers, our commercial premiums increased approximately 29% in the year.

Despite the relative strength of home sales and commercial lending, the incremental increase in premiums written from this business was not enough to offset the dramatic drop in refinance lending. To offset such cyclical market downturns, Investors has always focused on increasing general market share and improving the efficiency of the way we write and support the issuance of policies.

In the marketing arena, we maintained our focus on developing agency relationships in a number of targeted markets. We continue to invest in staff and in our marketing program to expand our agency base. Our approach is unique in terms of the comprehensive support offered to our agents. With increased premiums written from recently attained agents, our agency-derived revenue remained essentially flat in a down year for total mortgage originations.

In our network of branch-owned offices, we continued to focus on refining operations to boost efficiency and improve our marketing efforts. Additionally, significant upgrades were implemented in our hardware systems in anticipation of a roll out of new software for policy generation.

Over the past 18 months, we developed a custom program upgrade to the software we utilize for policy preparation. Roll out of the software began late in the third quarter and will be essentially completed by the end of the second quarter of 2000. A number of new features have been built in to this proprietary program, paving the way for significantly improved processing efficiency.

Another growing area for the Company is the business of providing support in tax deferred or 1031 exchanges of real property. Section 1031 of the Internal Revenue Code allows investors to defer the tax on any gain realized when property held for investment or use in a business is swapped for other like-kind property. These are technical transactions requiring specialized expertise in the related provision of the tax code. Additionally, by serving as a qualified intermediary, we often are positioned to provide title insurance on the acquisition of replacement property.

Financial highlights for the year include a return on equity of 11.97% which, although down slightly, remains near our five year average of 15.18%. Assets grew to $55,156,564 and stockholders' equity grew to $37,501,740.

<u>**Financial Statements**</u>

Consolidated Balance Sheets

Investors Title Company and Subsidiaries

CONSOLIDATED BALANCE SHEETS

as of December 31, 1999 and 1998

	1999	1998
Assets		
Cash and cash equivalents	**$ 7,554,297**	$ 8,141,354
Investments in securities (Notes 2 and 3 in the printed version):		
Fixed maturities:		
Held-to-maturity, at amortized cost (fair value: 1999: $4,446,988; 1998: $5,515,532	**4,565,871**	5,287,458
Available-for-sale, at fair value (amortized cost: 1999: $26,629,880; 1998: $22,131,173)	**25,931,918**	23,235,754
Equity securities, at fair value (cost: 1999: $2,510,505; 1998: $2,522,793)	**5,012,259**	5,275,912
Total investments	**35,510,048**	33,799,124
Premiums receivable (less allowance for doubtful accounts: 1999 and 1998: $775,000)	**3,292,001**	5,357,000
Accrued interest and dividends	**521,624**	481,741
Prepaid expenses and other assets	**930,981**	410,778
Property acquired in settlement of claims	**191,617**	108,500
Property, net (Note 4 in the printed version)	**5,836,466**	3,299,315
Prepaid federal income taxes	**705,437**	-
Deferred income taxes, net (Note 8 in the printed version)	**614,093**	-
Total Assets	**$ 55,156,564**	$ 51,597,812
Liabilities and Stockholders' Equity		
Liabilities:		
Reserves for claims (Note 6 in the printed version)	**$ 15,864,665**	$ 13,362,665
Accounts payable and accrued liabilities	**1,560,936**	1,258,802
Commissions and reinsurance payables (Note 5 in the printed version)	**208,605**	84,598
Premium taxes payable	**20,618**	277,887
Current income taxes payable	**-**	207,350
Deferred income taxes, net (Note 8 in the printed version)	**-**	77,845
Total liabilities	**17,654,824**	15,269,147
Commitments and Contingencies (Notes 5, 9 and 11 in the printed version)		
Stockholders' Equity (Notes 2, 3, 7 and 12 in the printed version):		
Common stock-no par value (shares authorized 6,000,000; 2,855,744 and 2,855,744 shares issued; and 2,736,961 and 2,809,123 shares outstanding 1999 and 1998, respectively)	**1**	732,453
Retained earnings	**36,311,613**	33,050,508
Accumulated other comprehensive income (net unrealized gain on investments) (net of deferred taxes: 1999: $613,667; 1998: $1,311,995) (Note 8)	**1,190,126**	2,545,704
Total stockholders' equity	**37,501,740**	36,328,665
Total Liabilities and Stockholders' Equity	**$ 55,156,564**	$ 51,597,812

See notes to consolidated financial statements found in the printed version.

Consolidated Statements of Cash Flows

Investors Title Company and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the Years Ended December 31, 1999, 1998 and 1997

	1999	1998	1997
Operating Activities:			
Net income	**$ 4,420,394**	$ 5,459,509	$ 4,530,382
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**470,843**	393,026	346,547
Amortization (accretion), net	**34,195**	(4,141)	3,767
Provision for losses on premiums receivable	**-**	425,000	150,000
Provision for equipment disposal	**-**	280,000	-
(Gain) loss on disposals of property	**45,216**	(16,182)	7,326
Net realized gain on sales of investments	**(418,395)**	(398,610)	(269,396)
Provision (benefit) for deferred income taxes	**6,390**	(1,238,097)	(445,238)
Provision for claims	**6,026,064**	8,094,950	4,679,353
Payments of claims, net of recoveries	**(3,524,064)**	(2,354,425)	(2,143,278)
Changes in assets and liabilities:			
(Increase) decrease in receivables and other assets	**1,421,796**	(2,237,678)	(1,635,116)
Increase in accounts payable and accrued liabilities	**302,134**	189,430	71,613
Increase (decrease) in commissions and reinsurance payables	**124,007**	(11,643)	35,339
Increase (decrease) in premium taxes payable	**(257,269)**	124,030	52,091
Increase (decrease) in current income taxes payable	**(912,787)**	182,269	(150,062)
Net cash provided by operating activities	**7,738,524**	8,887,438	5,233,328
Investing Activities:			
Purchases of available-for-sale securities	**(6,036,921)**	(4,354,272)	(9,036,039)
Purchases of held-to-maturity securities	**(100,986)**	(1,025,057)	(297,951)
Proceeds from sales of available-for-sale securities	**1,948,391**	2,880,022	2,530,426
Proceeds from sales of held-to-maturity securities	**808,886**	575,974	724,123
Purchases of property	**(3,077,730)**	(1,187,008)	(422,111)
Proceeds from disposals of property	**24,520**	30,928	32,229
Net cash used in investing activities	**(6,433,840)**	(3,079,413)	(6,469,323)
Financing Activities:			
Distributions (repurchases) of common stock	**(1,549,052)**	(147,159)	157,291
Dividends paid	**(342,689)**	(342,689)	(342,689)
Net cash used in financing activities	**(1,891,741)**	(489,848)	(185,398)
Net Increase (Decrease) in Cash and Cash Equivalents	**(587,057)**	5,318,177	(1,421,393)
Cash and Cash Equivalents, Beginning of Year	**8,141,354**	2,823,177	4,244,570
Cash and Cash Equivalents, End of Year	**$ 7,554,297**	$ 8,141,354	$ 2,823,177
Supplemental Disclosures:			
Cash Paid During the Year for:			
Income Taxes	**$ 2,947,397**	$ 3,293,000	$ 2,516,000

See notes to consolidated financial statements found in the printed version.

Consolidated Statements of Income

Investors Title Company and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

for the Years Ended December 31, 1999, 1998 and 1997

	1999	1998	1997
Revenues:			
Underwriting income:			
Premiums written (Note 5 in the printed version)	$ **44,144,777**	$ 45,692,323	$ 30,117,171
Less-premiums for reinsurance ceded (Note 5 in the printed version)	**325,212**	312,627	241,821
Net premiums written	**43,819,565**	45,379,696	29,875,350
Investment income-interest and dividends (Note 3 in the printed version)	**2,175,671**	1,834,949	1,628,188
Net realized gain on sales of investments (Note 3 in the printed version)	**418,395**	398,610	269,396
Other	**952,928**	863,008	617,582
Total	**47,366,559**	48,476,263	32,390,516
Operating Expenses:			
Commissions to agents	**17,045,552**	17,399,629	10,065,249
Provision for claims (Note 6 in the printed version)	**6,026,064**	8,094,950	4,679,353
Salaries	**7,699,812**	6,384,965	4,543,598
Employee benefits and payroll taxes (Notes 7 and 10 in the printed version)	**2,142,516**	1,863,400	1,578,688
Office occupancy and operations (Note 9 in the printed version)	**4,238,753**	3,241,118	2,512,370
Business development	**1,662,485**	1,381,717	1,091,812
Taxes, other than payroll and income	**265,467**	262,995	168,607
Premium and retaliatory taxes	**862,414**	880,885	592,660
Professional fees	**782,331**	391,971	317,294
Provision for equipment disposal	**-**	280,000	-
Other	**179,771**	599,124	390,103
Total	**40,905,165**	40,780,754	25,939,734
Income Before Income Taxes	**6,461,394**	7,695,509	6,450,782
Provision For Income Taxes (Note 8 in the printed version)	**2,041,000**	2,236,000	1,920,400
Net Income (Note 12 in the printed version)	$ **4,420,394**	$ 5,459,509	$ 4,530,382
Basic Earnings per Common Share	$ **1.59**	$ 1.95	$ 1.63
Weighted Average Shares Outstanding - Basic	**2,776,878**	2,806,267	2,782,449
Diluted Earnings per Common Share (Note 7 in the printed version)	$ **1.59**	$ 1.92	$ 1.60
Weighted Average Shares Outstanding - Diluted	**2,786,282**	2,841,035	2,826,730

See notes to consolidated financial statements found in the printed version.

Consolidated Statements of Stockholders' Equity

Investors Title Company and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

for the Years Ended December 31, 1999, 1998 and 1997

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Net Unrealized Gain on Investments)	Total Stockholders' Equity
Balance,					
January 31, 1997	2,767,830	$ 722,321	$ 23,745,995	$ 1,519,861	$ 25,988,177
Net income			4,530,382		4,530,382
Dividends ($.12 per share)			(342,689)		(342,689)
Distributions of 32,410 shares of common stock (net of purchases)	32,410	157,291			157,291
Net unrealized gain on investments				795,747	795,747
Balance,					
December 31, 1997	2,800,240	879,612	27,933,688	2,315,608	31,128,908
Net income			5,459,509		5,459,509
Dividends ($.12 per share)			(342,689)		(342,689)
Distributions of 8,883 shares of common stock (net of purchases)	8,883	(147,159)			(147,159)
Net unrealized gain on investments				230,096	230,096
Balance,					
December 31, 1998	2,809,123	732,453	33,050,508	2,545,704	36,328,665
Net income			4,420,394		4,420,394
Dividends ($.12 per share)			(342,689)		(342,689)
Purchases of 72,162 shares of common stock (net of distributions)	(72,162)	(732,452)	(816,600)		(1,549,052)
Net unrealized gain on investments				(1,355,578)	(1,355,578)
Balance,					
December 31, 1999	**2,736,961**	**$ 1**	**$ 36,311,613**	**$ 1,190,126**	**$ 37,501,740**

Investors Title Company and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the Years Ended December 31, 1999, 1998 and 1997

	1999	1998	1997
Net income	**$ 4,420,394**	$ 5,459,509	$ 4,530,382
Other comprehensive income, before tax:			
Unrealized gain (loss) on investments arising during the year	**(1,635,511)**	747,240	1,475,645
Less: reclassification adjustment for gains realized in net income	**(418,395)**	(398,610)	(269,396)
Other comprehensive income (loss), before tax	**(2,053,906)**	348,630	1,206,249
Income tax expense (benefit) related to unrealized gain (loss) on investments arising during the year	**(556,074)**	254,061	501,719
Income tax expense related to reclassification adjustment for net gain realized in net income	**(142,254)**	(135,527)	(91,217)
Net income tax expense (benefit) on other comprehensive income	**(698,328)**	118,534	410,502
Other comprehensive income (loss)	**(1,355,578)**	230,096	795,747
Comprehensive income	**$ 3,064,816**	$ 5,689,605	$ 5,326,129

See notes to consolidated financial statements found in the printed version.

MD&A

The following discussion should be read in conjunction with the consolidated financial statements and the related footnotes on pages 12-22 of this report.

Overview

Investors Title Company's (the "Company") primary business activity is the issuance of title insurance through its two title insurance subsidiaries, Investors Title Insurance Company ("ITIC") and Northeast Investors Title Insurance Company ("NE-ITIC.") Factors which influence the land title business include mortgage interest rates, the availability of mortgage funds, the level of real estate activity, the cost of real estate, consumer confidence, the supply and demand of real estate, inflation and general economic conditions. During the past three years, a strong economy and a general low level of mortgage interest rates combined to favorably impact the level of real estate activity. These factors have contributed to record levels of new and existing home sales and until early 1999, a surge of refinance activity. Although refinance activity decreased in 1999 due to an upward trend in mortgage rates, the overall level of real estate activity and mortgage lending have increased the demand for title insurance. According to the Mortgage Bankers Association of America, the annual average 30-year fixed mortgage interest rates over the past three years were reported to be 7.4%, 6.9% and 7.6% in 1999, 1998 and 1997, respectively. Housing starts were 1.66 million, 1.62 million and 1.47 million in 1999, 1998 and 1997, respectively. New and existing home sales were 6.1 million, 5.86 million and 5.19 million in 1999, 1998 and 1997, respectively. In January of 1997, 30-year fixed mortgage interest rates were 7.6%, rose to 8.14% in April, and finally began a steady decline to end up the year at 7.1%. Over the course of the year, this .5% overall decline contributed to an increase in real estate sales. During 1998, 30-year fixed mortgage interest rates started out at 7.1% and ended the year at 6.74%. The overall decline in interest rates spurred an increase in real estate sales, which was a contributing factor to the increase of $15,504,346 in the Company's 1998 net premiums written as compared with 1997 net premiums written. In 1999, 30-year fixed mortgage interest rates climbed steadily, starting the year at 6.74% and ending at 7.91%. The increase in mortgage interest rates resulted in a slowdown in mortgage originations and virtually halted refinance activity. The higher level of interest rates and resulting drop in referral lending contributed substantially to the decrease of $1,560,131 in net premiums written in 1999 as compared with 1998 net premiums written. Management cannot predict the future level of mortgage interest rates nor the impact such rates will have on home sales, housing starts, mortgage lending or other real estate activity. The Company strives to offset the cyclical nature of the real estate market by increasing its market share. These efforts include expanding into new markets by continuing to develop agency relationships, as well as improving market penetration with existing offices and agents.

Credit Rating

ITIC has been recognized by two independent Fannie Mae approved actuarial firms with rating categories of "A Double Prime – unsurpassed financial stability" and "A – strong overall financial condition." NE-ITIC's financial stability has been recognized by two Fannie Mae approved actuarial firms with rating categories of "A Prime – unsurpassed financial stability" and "A – strong overall financial condition."

Results of Operations
Operating Revenues

Net premiums written decreased 3% and increased 52% in 1999 and 1998, respectively. The decline in sales in 1999 resulted primarily from increases in mortgage interest rates. In 1999, the number of policies and commitments issued declined to 256,272, a decrease of 9% compared with 281,251 in 1998. In 1998, policies and commitments issued rose by 97,014 policies, an increase of 53% compared with 184,237 in 1997. Management believes that factors contributing to the overall growth in the Company's premiums written since 1997 have been (1) the establishment, in 1997, of a Commercial Real Estate Transactions Department to offer assistance in connection with commercial transactions, (2) the refinement of employee incentives and equity based compensation to achieve revenue targets, (3) the increased use of tax-deferred exchanges by real estate investors, (4) continued improvements to proprietary technologies that favorably impact labor costs and increase productivity, and (5) the establishment of a National Accounts Department, which through an extensive network of attorneys and agents, acts as a liaison for customers by placing title orders and providing regular follow-up throughout the entire settlement process. Shown below is a schedule of net premiums written for 1999, 1998 and 1997 in all states where our two insurance subsidiaries, ITIC and NE-ITIC, currently underwrite insurance:

	1999	1998	1997
Alabama	$ 1,003	$ -	$ -
Arkansas	-	17,711	-
Florida	-	75,957	95,790
Georgia	499,194	715,560	558,988
Indiana	409,630	158,194	111,131
Kentucky	4,527	252	265
Maryland	597,470	515,763	94,253
Michigan	6,760,538	9,145,165	4,796,435
Minnesota	1,693,036	1,044,599	198,728
Mississippi	22,537	37,479	29,183
Nebraska	1,135,924	791,121	572,685
New York	542,497	507,324	441,479
North Carolina	19,713,637	21,188,663	15,368,830
Pennsylvania	45,682	7,783	1,019
South Carolina	5,016,808	3,940,872	3,006,167
Tennessee	607,047	219,649	140,937
Virginia	6,143,420	7,020,000	4,642,834
West Virginia	895,745	232,426	-
Wisconsin	9,350	-	-
Direct Premiums	44,098,045	45,618,518	30,058,724
Reinsurance Assumed	46,732	73,805	58,447
Reinsurance Ceded	(325,212)	(312,627)	(241,821)
Net Premiums Written	$ 43,819,565	$ 45,379,696	$ 29,875,350

Branch net premiums written as a percentage of total net premiums written were 45.2%, 46.9% and 51.9% in 1999, 1998 and 1997, respectively. Net premiums written from branch operations decreased 6.9% in 1999 compared with 1998 and increased 37.2% in 1998 compared with 1997. Agency net premiums written as a percentage of total net premiums written were 54.8%, 53.1% and 48.1% in 1999, 1998 and 1997, respectively. Net premiums written from agency operations remained virtually flat in 1999 compared with 1998. Net premiums written from agency operations increased 67.8% in 1998 compared with 1997 due to the Company's efforts to increase the distribution of its products through an agency network.

Seasonality

Title insurance premiums are closely related to the level of real estate activity and the average price of real estate sales. The availability of funds to finance purchases directly affects real estate sales. Other factors include consumer confidence, economic conditions, supply and demand, mortgage interest rates and family income levels. Generally, the first quarter has the least real estate activity, while the remaining quarters are more active. Fluctuations in mortgage interest rates can cause shifts in real estate activity outside of the normal seasonal pattern, especially as these changes relate to refinance activity.

Investment Income

Investments are an integral part of the Company's business. In formulating its investment strategy, the Company has emphasized after-tax income. Investments in marketable securities have increased from funds retained in the Company. The investments are primarily in debt securities, and to a lesser extent, equity securities. The maturity schedule of investments has primarily remained within 20 years. As new funds become available, they are invested in accordance with the Company's investment policy and corporate goals. Securities purchased may include a combination of taxable fixed income securities, tax-exempt securities and equities. The Company strives to maintain a high quality investment portfolio. Investment income increased 18.6% and 12.7% in 1999 and 1998, respectively. These increases were primarily attributable to increases in the average investment portfolio balances coupled with a slight rise in interest rates in 1999.

Expenses

Profit margins were 9.33%, 11.26% and 13.99% in 1999, 1998 and 1997, respectively. The decrease in net premiums written coupled with increases in operating expenses (primarily salaries and employee benefits, office occupancy and operations, business development and professional fees), contributed to the decline in profit margin for 1999. These operating expenses increased primarily due to investments in technology and costs associated with entering and supporting new marketing areas. In 1998, the profit margin declined primarily due to increased commissions paid to agents coupled with a rise in the claims provision. Margins from agent business are typically lower than those from branch business since agent commissions are generally higher than the operating expenses incurred for direct business. In order to maintain and improve margins, the Company continues to refine operating procedures to better support its branch offices and agents and has implemented cost control programs designed to evaluate and reduce expenses. Commissions decreased 2% in 1999 and increased 72.9% and 74.1% in 1998 and 1997, respectively. The increases in 1998 and 1997 were due to increased business from agent sources. Overall, commission expense as a percentage of agent premiums written has remained relatively constant for the last three years. Commission rates vary geographically and may be influenced by state regulations. The provision for claims as a percentage of net premiums written was 13.8%, 17.8% and 15.7% in 1999, 1998 and 1997, respectively. The decrease in the 1999 claims provision was due to a decrease in the reserves necessary for policies written in years prior to 1999. The increase in the 1998 claims provisions was primarily due to increases in claims payments and the reserves for claims. Payments of claims, net of recoveries, were $3,524,064, $2,354,425 and $2,143,278 in 1999, 1998 and 1997. The Company has continued to strengthen its reserves for claims. At December 31, 1999, the total reserves for claims were $15,864,665. Of that total, $2,494,563 was reserved for specific claims, and $13,370,102 was reserved for claims for which the Company had no notice. Management relies on actuarial techniques to estimate future claims by analyzing historical claim payment patterns. Claims reserves are reviewed and certified as to their adequacy by independent actuaries annually. There are no known claims that are expected to have a materially adverse effect on the Company's financial position. Salaries as a percentage of net premiums written were 17.6%, 14.1% and 15.2% in 1999, 1998 and 1997, respectively. Office occupancy and operations as a percentage of net premiums was 9.7%, 7.1% and 8.4% in 1999, 1998 and 1997, respectively. In 1999, the increases in salaries and office occupancy and operations were due to investments in technology and costs associated with entering and supporting new market areas. Premium and retaliatory taxes decreased 2.1% in 1999 and increased 48.6% and 40.8% in 1998 and 1997, in direct proportion to the fluctuations in premium volume. The Company recorded a reserve of $280,000 in 1998 in order to write-off certain electronic data processing equipment. In 1999, the liability related to this reserve was removed and the related equipment was replaced as a result of internal technology upgrades and Year 2000 compliance initiatives. See discussion of Year 2000 issues in "Other Matters."

Net Income

The Company reported a decrease in net income of 19% in 1999 and an increase in net income of 20.5% and 17.9% in 1998 and 1997, respectively. The decrease in 1999 was due to a decrease in net premiums written of 3.4% coupled with increases in certain operating expenses. The increases in 1998 and 1997 were primarily attributable to increased revenues and improved operating efficiencies resulting from expense control procedures, partially offset by increased commissions and claims expense.

Liquidity and Capital Resources

Cash flows provided by operating activities were $7,738,524, $8,887,438 and $5,233,328 in 1999, 1998 and 1997, respectively. The decrease in 1999 was primarily the result of the decrease in net income compared with 1998. As of December 31, 1999 and 1998, approximately $33,322,000 and $31,219,000 respectively, of the consolidated stockholders' equity represents net assets of the Company's subsidiaries that cannot be transferred in the form of dividends, loans or advances to the parent company under statutory regulations without prior insurance department approval. The parent company's ability to pay dividends and operating expenses is dependent on funds received from the insurance subsidiaries. These funds should be adequate to meet the parent company's operating needs. On December 9, 1996, the Board of Directors approved the repurchase by the Company of up to 150,000 shares of the Company's common stock from time to time at prevailing market prices. A portion of the repurchases is to avoid dilution to existing shareholders as a result of issuances of stock in connection with stock options and stock bonuses. Pursuant to this approval, the Company has repurchased 99,645 shares at an average price of $19.05 per share during 1999, 22,010 shares at an average purchase price of $23.60 per share during 1998, and 22,134 shares at an average purchase price of $17.10 per share during 1997. On May 11, 1999 the Board of Directors also approved the repurchase of an additional 200,000 shares of the Company's common stock. During the twelve months ended December 31, 1999, the Company repurchased common stock valued at $1,897,895 and redistributed previously acquired common stock valued at $348,843 in satisfaction of stock option exercises and stock bonuses under the Company's Long Term Incentive Plans. In 1999, retained earnings and common stock combined had a net increase of $2,528,653, after repurchases and distributions reduced retained earnings and common stock by $816,600 and $732,452, respectively. Management believes that funds generated from operations (primarily underwriting and investment income) will enable the Company to adequately meet its operating needs and is unaware of any trend likely to result in adverse liquidity changes. In addition to operational liquidity, the Company maintains a high degree of liquidity within its investment portfolio in the form of short-term investments and other readily marketable securities.

Other Matters

Year 2000 Issues

The Company's Year 2000 Project Committee (the "Committee") is comprised of department heads and high-level managers representing each of the Company's departments. Under the leadership of the Vice President of Information Systems, the Committee worked through the Year 2000 transition to ensure that all aspects of the Company's business and operations continued normally. As of March 6, 2000, the Company has not experienced business interruptions from Year 2000 issues, either internally or with its third party business partners and vendors. Business operations continued uninterrupted through the December 31, 1999 to January 1, 2000 transition, as well as the Leap Year transition (from February 29, 2000 through March 1, 2000.) The Company's efforts to complete its regular technology refresh project helped to mitigate the possibility of Year 2000 interruptions. The planned technology refresh kept costs directly associated to Year 2000 to approximately $20,000. At this time, the Company does not expect to incur additional costs directly related to its Year 2000 initiative. Although the Company believes it has completed all phases of its Year 2000 initiative in sufficient time to identify and remedy any non-compliant programs and systems, future failures experienced by third party vendors could negatively impact the Company's operations.

Quantitative and Qualitative Disclosures About Market Risk

The Company's primary exposure to market risk relates to the impact of adverse changes in market rates and prices of its investment portfolio. Adverse changes in interest rates diminish the value of fixed income securities and preferred stock and decreases in stock market values diminish the value of common stocks held.

Corporate Oversight

The Company generates substantial investable funds from its two insurance subsidiaries. In formulating and implementing policies for investing new and existing funds, the Company has emphasized maximizing total after-tax return on capital and earnings while ensuring the safety of funds under management and adequate liquidity. The Company's Board of Directors administers and oversees investment risk management processes. The Company seeks to invest premiums and deposits to create future cash flows that will fund future claims, employee benefits and expenses, and earn stable margins across a wide variety of interest rate and economic scenarios. The Board has established specific investment policies that define the overall framework for managing market and other investment risks, including the accountabilities and controls over these activities. The Company may use the following tools to manage its exposure to market risk within defined tolerance ranges: 1) rebalance its existing asset portfolios or 2) change the character of future investments.

Interest Rate Risk

Interest rate risk is the risk that the Company will incur economic losses due to adverse changes in interest rates. This risk arises from the Company's investments in interest-sensitive debt securities. These securities are primarily fixed-rate municipal and corporate bonds. The Company does not purchase such securities for trading purposes. At December 31, 1999, the Company had approximately $30.4 million in fixed rate bonds. The Company manages the interest rate risk inherent in its assets by monitoring its liquidity needs and by targeting a specific range for the portfolio's duration or weighted average maturity. To determine the potential effect of interest rate risk on interest-sensitive assets, the Company calculates the effect of a 10% change in prevailing interest rates ("rate shock") on the fair market value of these securities considering stated interest rates and time to maturity. Based upon the information and assumptions the Company uses in its calculation and in effect at December 31, 1999, management estimates that a 10% immediate, parallel increase in prevailing interest rates would decrease the net fair market value of its debt securities by approximately $1.3 million. The selection of a 10% immediate parallel increase in prevailing interest rates should not be construed as a prediction by the Company's management of future market events; but rather, to illustrate the potential impact of such an event. To the extent that actual results differ from the assumptions utilized, the Company's rate shock measures could be significantly impacted. Additionally, the Company's calculation assumes that the current relationship between short-term and long-term interest rates (the term structure of interest rates) will remain constant over time. As a result, these calculations may not fully capture the impact of non-parallel changes in the term structure of interest rates and/or large changes in interest rates.

Equity Price Risk

Equity price risk is the risk that the Company will incur economic losses due to adverse changes in a particular stock or stock index. At December 31, 1999, the Company had approximately $5 million in common stocks. By internal policy, the Company's maximum exposure to the equity market is limited to 20% of the Company's statutorily admitted assets. Equity price risk is addressed in part by varying the specific allocation of equity investments over time pursuant to management's assessment of market and business conditions and ongoing liquidity needs analysis. The Company's largest equity exposure is declines in the S&P 500; its portfolio of equity instruments is similar to those that comprise this index. Based upon the information and assumptions the Company uses in its calculation and in effect at December 31, 1999, management estimates that an immediate decrease in the S&P 500 of 10% would decrease the net fair value of the Company's assets identified above by approximately $500,000. The selection of a 10% immediate decrease in the S&P 500 should not be construed as a prediction by the Company's management of future market events; but rather, to illustrate the potential impact of such an event. Since this calculation is based on historical performance, projecting future price volatility using this method involves an inherent assumption that historical volatility and correlation relationships will remain stable. Therefore, the results noted above may not reflect the Company's actual experience if future volatility and correlation relationships differ from such historical relationships.

Safe Harbor Statement

Except for the historical information presented, the matters disclosed in the foregoing discussion and analysis and other parts of this report include forward-looking statements. These statements represent the Company's current judgment on the future and are subject to risks and uncertainties that could cause actual results to differ materially. Such factors include, without limitation: (1) that the demand for title insurance will vary with factors beyond the control of the Company such as changes in mortgage interest rates, availability of mortgage funds, level of real estate activity, cost of real estate, consumer confidence, supply and demand for real estate, inflation and general economic conditions; (2) that losses from claims may be greater than anticipated such that reserves for possible claims are inadequate; (3) that unanticipated adverse changes in securities markets could result in material losses on investments made by the Company; and (4) the dependence of the Company on key management personnel the loss of whom could have a material adverse affect on the Company's business. The Company's discussion of Year 2000 issues under the heading "Other Matters" contains forward-looking statements that are subject to risks and uncertainties that could cause the actual results to differ from those projected. These include the risks associated with unidentified technological issues associated with the Company's own Year 2000 compliance efforts and the compliance efforts of third parties on whose systems the Company relies. Other risks and uncertainties may be described from time to time in the Company's other reports and filings with the Securities and Exchange Commission.

Financial Highlights

Investors Title Company and Subsidiaries
Financial Highlights

For the Year	1999	1998	1997	1996	1995
Net premiums written	$43,819,565	$45,379,696	$29,875,350	$21,111,155	$15,854,140
Revenues	47,366,559	48,476,263	32,390,516	22,991,182	17,365,950
Investment income	2,175,671	1,834,949	1,628,188	1,352,932	1,140,636
Net income	4,420,394	5,459,509	4,530,382	3,843,537	3,250,658
Per Share Data					
Basic earnings per common share	$1.59	$1.95	$1.63	$1.39	$1.16
Weighted average shares outstanding - Basic	2,776,878	2,806,267	2,782,449	2,772,286	2,804,632
Diluted earnings per common share	$1.59	$1.92	$1.60	$1.37	$1.15
Weighted average shares outstanding - Diluted	2,786,282	2,841,035	2,826,730	2,813,001	2,816,544
Cash dividends per share	$.12	$.12	$.12	$.095	$.08
At Year End					
Assets	$55,156,564	$51,597,812	$41,293,007	$33,642,528	$28,224,276
Investments in securities	35,510,048	33,799,124	31,124,410	23,573,663	19,742,639
Stockholders' equity	37,501,740	36,328,665	31,128,908	25,988,177	22,209,814
Book value/share	13.70	12.93	11.12	9.39	7.96
Performance Ratios					
Net income to:					
Average stockholders' equity	11.97%	16.19%	15.86%	15.95%	15.95%
Total revenues (profit margin)	9.33%	11.26%	13.99%	16.72%	18.72%

ABOUT INVESTORS TITLE COMPANY

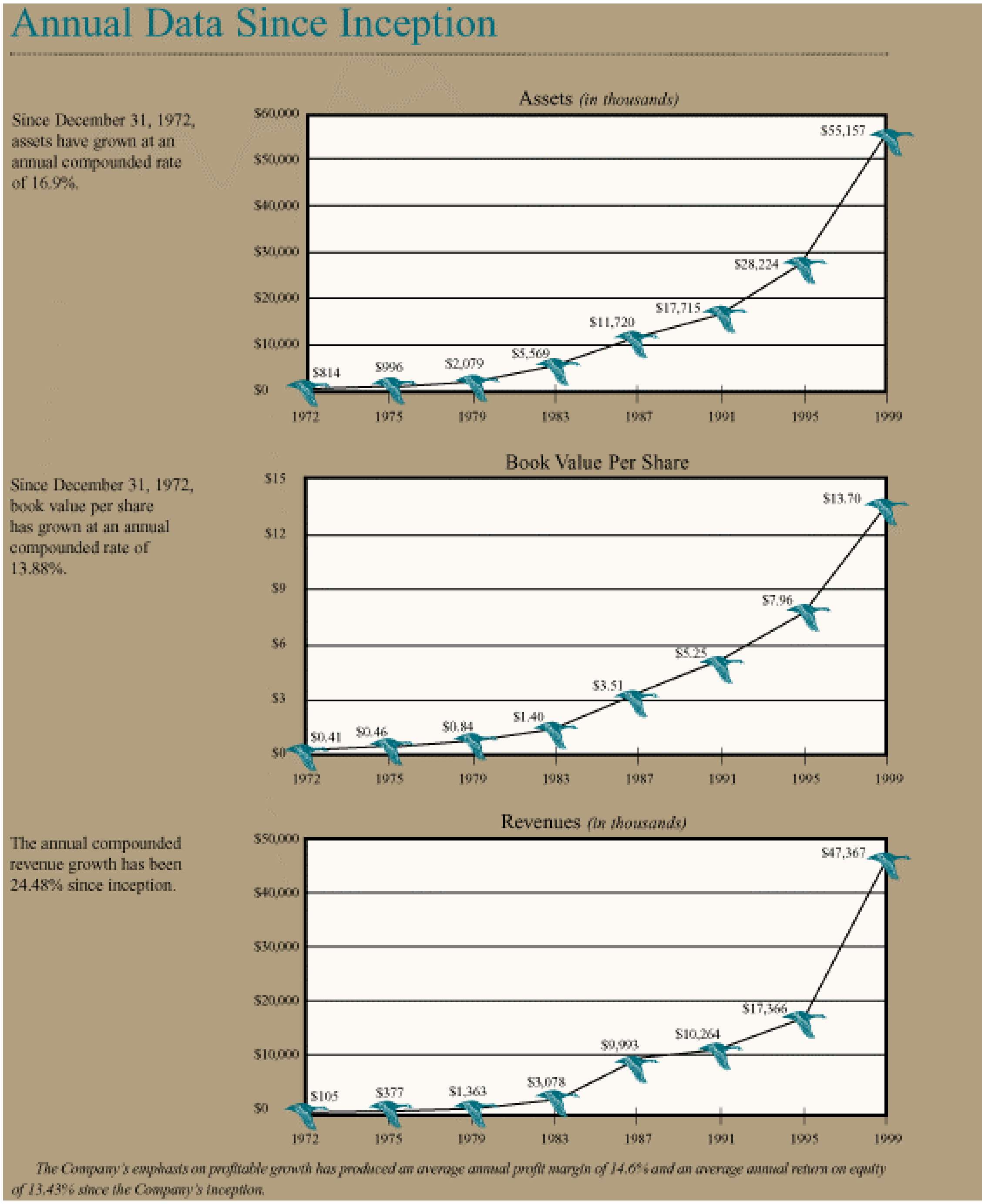
Investors Title Company, through its subsidiaries, is engaged in the business of issuing and underwriting title insurance policies. Formed in 1973, the Company has maintained its leading market share in North Carolina for 16 years and continues to expand in other markets across the country. Investors Title is committed to unsurpassed customer service and carefully pursues new avenues for growth.

Select Quarterly Data

SELECTED QUARTERLY FINANCIAL DATA

1999	March 31	June 30	September 30	December 31
Net premiums written	$10,694,237	$12,384,887	$ 11,258,080	$ 9,482,361
Investment income	470,127	498,650	544,322	662,572
Net income	1,176,318	1,472,027	1,303,516	468,533
Basic earnings per common share	.42	.53	.47	.17
Diluted earnings per common share	.42	.53	.47	.17
1998				
Net premiums written	$ 9,441,848	$11,306,051	$ 11,678,518	$12,953,279
Investment income	420,286	445,491	459,947	509,225
Net income	1,067,621	1,375,299	1,546,940	1,469,649
Basic earnings per common share	.38	.49	.55	.52
Diluted earnings per common share	.38	.48	.55	.52

Historical Data



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